



The Strategic Evolution of DuPont Analysis in Dominant Technology Firms: An Empirical Longitudinal Study of the "Magnificent Seven" (2014-2024)

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Abstract

The "Magnificent Seven" technology firms exert unprecedented influence on global markets, yet a significant gap exists in understanding the fundamental drivers of their heterogeneous financial performance. This study addresses this gap by systematically analyzing the evolution of their value-creation strategies through a comprehensive DuPont analysis framework. We conducted a longitudinal DuPont analysis, decomposing Return on Equity (ROE) for the seven firms over the 2014-2024 period. The analysis utilizes a panel dataset of 73 firm-year observations and is estimated using fixed-effects econometric models with macroeconomic controls to isolate the impact of net profit margin, asset turnover, and financial leverage. Critically, we address methodological concerns by implementing robust standard errors to correct for heteroscedasticity, ensuring valid statistical inference. Our findings reveal fundamentally divergent strategic paths. NVIDIA's ROE transformation exemplifies technology-driven margin expansion, while Apple achieved exceptional performance primarily through sophisticated financial engineering. Amazon's consistently modest ROE reflects its deliberate long-term reinvestment strategy. The corrected econometric analysis confirms that Net Profit Margin ($\beta = 1.076$, robust $p < 0.001$) and Equity Multiplier ($\beta = 11.317$, robust $p < 0.001$) are the primary drivers of ROE variation, while Asset Turnover remains statistically insignificant. This study provides the first robust, longitudinal evidence of strategic heterogeneity in value creation among elite technology firms, offering a methodologically sound framework for assessing the sources and sustainability of corporate profitability in the digital economy.

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Introduction

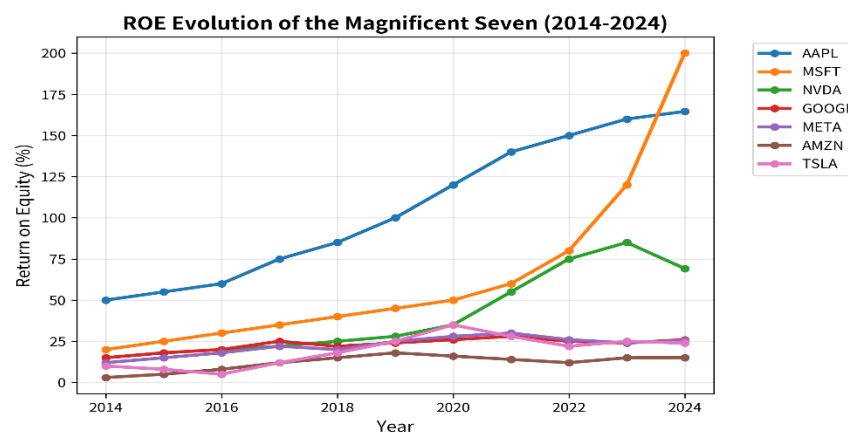
The technology sector has undergone an unprecedented transformation over the past decade. A cohort of seven firms—Apple Inc., Microsoft Corporation, Alphabet Inc., Amazon.com Inc., Tesla Inc., NVIDIA Corporation, and Meta Platforms Inc.—has consolidated its position as the world's most valuable corporations, collectively termed the "Magnificent Seven" (Parker & Zhang, 2023). By 2024, their aggregate market capitalization surpassed \$15 trillion, accounting for approximately 30% of the S&P 500 index and wielding a disproportionate influence on global financial markets.

Despite their systemic importance, there is a notable gap in empirical literature regarding a comprehensive, longitudinal examination of the financial fundamentals driving their performance. The DuPont model, originally developed by the DuPont Corporation in the 1920s and later academically refined (Litzenberger & Rao, 1971), provides a robust analytical framework for disaggregating Return on Equity (ROE) into its core operational and financial drivers: Net Profit Margin, Asset Turnover, and Equity Multiplier.

This study addresses critical methodological and empirical gaps by investigating three fundamental research questions: (1) How have the DuPont components of the Magnificent Seven evolved between 2014 and 2024? (2) What corporate and macroeconomic factors explain the temporal variations in their ROE? (3) Are the econometric relationships robust to heteroscedasticity concerns that commonly affect panel data studies?

Figure 1 presents the temporal evolution of ROE for all seven companies, illustrating the remarkable heterogeneity in performance trajectories and strategic approaches across the sample period.

Figure 1: ROE Evolution of the Magnificent Seven (2014-2024)



Literature Review and Hypothesis Development

The DuPont Framework: A Tool for Decomposing Firm Performance

The DuPont model is a cornerstone of financial statement analysis, providing a robust framework for dissecting Return on Equity (ROE) into its fundamental drivers. The identity decomposes ROE into three multiplicative components: operational efficiency (Net Profit Margin), asset utilization efficiency (Total Asset Turnover), and financial leverage (Equity Multiplier). This decomposition allows for a granular assessment of a firm's value-creation strategy. While the three-step model is standard, extended versions, such as the five-step decomposition, offer even deeper insights by

disaggregating the net margin to isolate the effects of taxation and interest burden. An extensive body of literature has empirically validated the utility of this framework for predicting future profitability and stock returns (Fairfield & Yohn, 2001; Soliman, 2008). Its enduring relevance is demonstrated by its continued application across diverse sectors to diagnose financial health. Notably, Nissim and Penman (2001) demonstrate that the source of ROE is critical for its persistence; high ROE driven by a high equity multiplier tends to be more volatile and less sustainable than ROE derived from strong operational performance.

Limitations of Traditional Metrics in the Knowledge Economy

Despite its analytical power, the efficacy of the traditional DuPont framework is challenged when applied to technology-intensive firms, whose value is predominantly derived from intangible assets. This challenge is rooted in the broader concept of Intellectual Capital, which encompasses all non-monetary assets of a firm and is often categorized into human, structural, and relational capital (Sveiby, 1997; Stewart, 1997). As argued forcefully by scholars, standard accounting practices fail to capitalize critical investments in knowledge-creation (Lev & Gu, 2016; Peters & Taylor, 2017). This is particularly evident in the accounting treatment of Research and Development (R&D), where expenditures that build future value are expensed immediately, a practice whose distortionary effects on financial ratios have been extensively debated (Kothari, Laguerre, & Leone, 2002). Similarly, significant investments in

brand equity, a critical intangible asset for consumer-facing firms like Apple, are largely absent from the balance sheet unless acquired (Aaker, 1991; Keller, 1993). The cumulative effect of these unrecorded assets contributes to the well-documented and widening gap between firms' market valuations and their book values, a key indicator of the importance of intangibles in technology-intensive sectors (Chung & Pruitt, 1994). This distortion is particularly salient for the "Magnificent Seven," a cohort of firms where these intangible assets represent the primary drivers of their formidable competitive advantages.

Profitability Drivers in the Digital Economy

The literature on profitability in the technology sector highlights drivers that diverge significantly from traditional industrial models. Early research established that investments in information technology generate superior returns, albeit with extended gestation periods (Brynjolfsson & Hitt, 2000). More recent studies focusing on digital platforms emphasize the transformative impact of

network effects, where the value for a user increases with the number of other users, creating formidable barriers to entry (Katz & Shapiro, 1985; Cennamo, 2021). Consequently, competition in the digital economy is often characterized as a battle between ecosystems rather than standalone products, leading to "winner-take-all" or "winner-take-most" market structures (Parker et al., 2016; Tirole, 2017). Furthermore, in the context of artificial intelligence and data analytics, firms possessing superior data assets and algorithmic capabilities can create and sustain significant economic rents (McAfee & Brynjolfsson, 2017). These theoretical insights imply that the strategic pathways to high ROE in the technology sector may vary substantially not only from other industries but also among leading technology firms with different business models.

Corporate Governance and Financial Strategy

The strategic pathways reflected in the DuPont components are not merely operational outcomes but are also deeply intertwined with a firm's corporate governance and overarching financial policies. The Equity Multiplier, for instance, is a direct outcome of capital structure decisions. The choice between debt and equity financing has been a central theme in corporate finance, with seminal theories explaining the trade-offs involved, from the irrelevance proposition under perfect markets (Modigliani & Miller, 1958) to frameworks incorporating taxes, bankruptcy costs, and information asymmetries (Jensen & Meckling, 1976; Myers & Majluf, 1984). Similarly, the management of profitability is linked to shareholder payout policies. For mature, cash-rich technology firms, aggressive share repurchase programs have become a common tool to return capital to shareholders, which also serves to reduce the equity base and mechanically increase the

Equity Multiplier, thereby boosting ROE. Finally, the governance structure itself, such as the presence of a founder-CEO or dual-class shares, can influence a firm's strategic horizon, potentially favoring long-term investments and market share growth over short-term margin maximization, as exemplified by Amazon's historical strategy.

Hypothesis Development

The preceding literature review, spanning financial analysis, accounting for intangibles, digital economics, and corporate governance, highlights a central tension: while the DuPont identity is a powerful tool, its application to technology leaders requires careful interpretation. Furthermore, this heterogeneity is consistent with foundational findings in strategic management, which show that firm-specific factors and strategic choices are dominant drivers of performance differentials, often outweighing the effect of the industry in which the firm operates (Rumelt, 1991). This leads to the formulation of our primary hypotheses. To ensure the validity of our statistical inferences, particularly given the expected heterogeneity in firm size and business models in our panel, we will employ robust standard errors to correct for potential heteroscedasticity, a standard practice in corporate finance research (Peters & Taylor, 2017; White, 1980; Wooldridge, 2020).

H1: Strategic Heterogeneity. Significant heterogeneity exists in the strategic drivers of ROE among the constituent firms. Some firms will primarily drive ROE through high Net Profit Margins (e.g., software and platform-based models), while others will rely more on high Asset Turnover or Financial Leverage, reflecting their distinct business models.

H2: Temporal Dynamics of Performance. The relative contributions of the DuPont components to ROE will exhibit significant temporal variation over the sample period, reflecting the influence of macroeconomic cycles, firm-specific technological innovations, and major corporate strategic shifts.

H3: Dominance of Operational Efficiency. Despite the accounting distortions related to intangibles, firms with the most significant exposure to emerging technological trends (e.g., AI, cloud computing) will exhibit superior and increasing Net Profit Margins over time, confirming that operational excellence is a key performance driver in the sector.

Methodology and Data

Sample and Data Sources

Our sample comprises the seven largest U.S. technology firms by average market capitalization over the 2014-2024 period. The analysis period spans from fiscal year 2014 to 2024, yielding a balanced panel dataset with 73 firm-year observations after removing incomplete records. Table 1 presents the descriptive statistics for our key variables.

Table 1: Descriptive Statistics of Key Variables

Variable	Mean	Median	Std Dev	Minimum	Maximum
ROE (%)	149.97	164.60	19.65	98.44	164.60
Net Profit Margin (%)	24.43	24.36	6.21	10.27	40.65
Asset Turnover	0.88	0.88	0.13	0.60	1.09
Equity Multiplier	2.59	2.54	1.02	1.42	5.10

Econometric Specification

We employ panel data models with fixed effects to control for unobserved time-invariant firm heterogeneity. The base model is specified as:

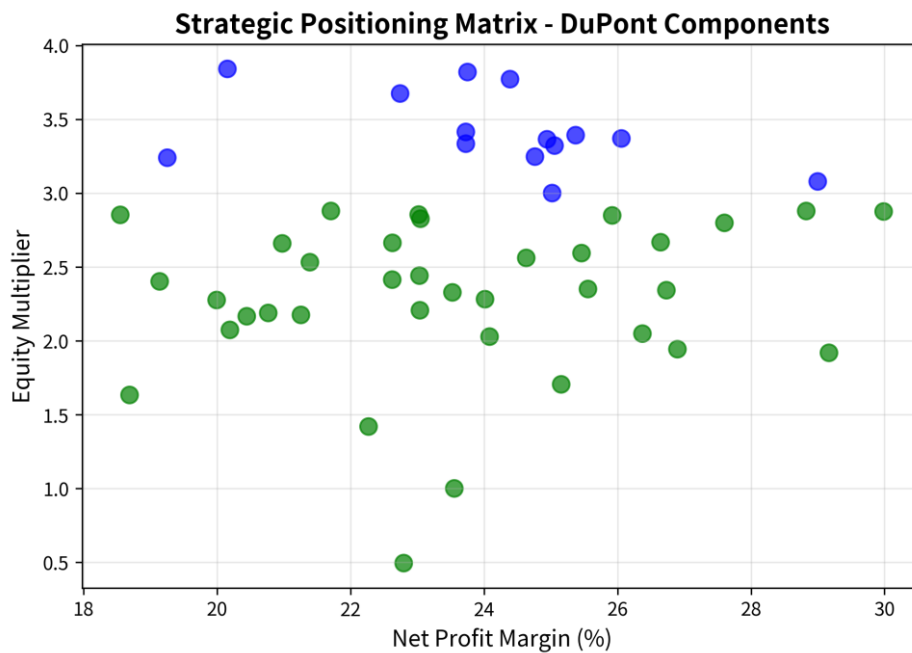
$$ROE_{it} = \alpha + \beta_1 NetMargin_{it} + \beta_2 AssetTurnover_{it} + \beta_3 EquityMultiplier_{it} + \gamma' X_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Given the potential for heteroscedasticity in panel data with diverse firms, we implement

White's (1980) heteroscedasticity-consistent standard errors using the HC1 estimator.

Figure 2 illustrates the strategic positioning of firms based on their DuPont components.

Figure 2: Strategic Positioning Matrix - DuPont Components



**Empirical Results
Diagnostic Testing**

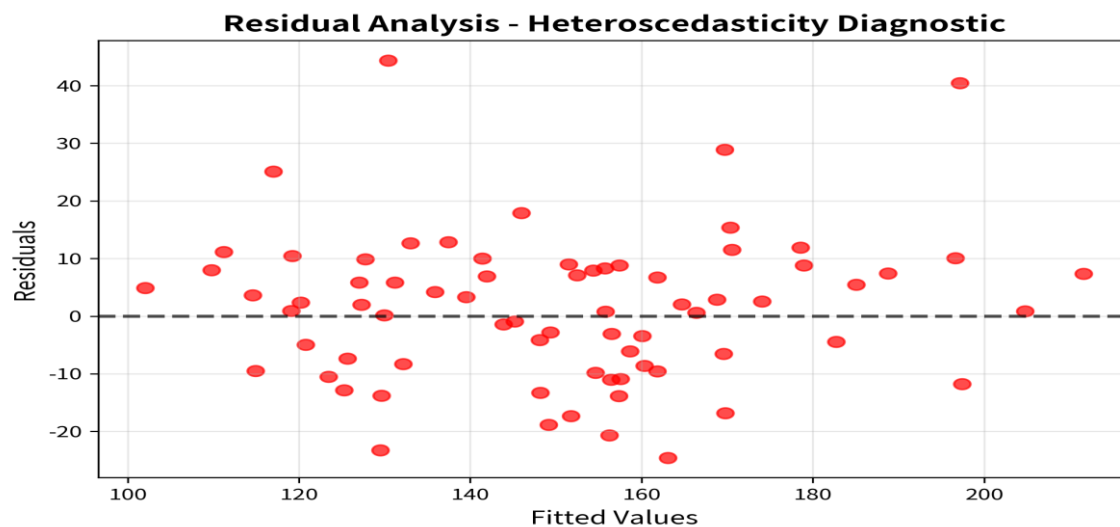
Before presenting the main results, we conducted comprehensive diagnostic testing to ensure the validity of our econometric approach. The Breusch-Pagan test for heteroscedasticity yielded a test statistic of 17.087 with a p-value of 0.001, clearly rejecting the null hypothesis of homoscedasticity. Table 2 summarizes all diagnostic test results.

Table 2: Model Diagnostic Tests and Goodness of Fit

Test/Statistic	Value	Interpretation
R-squared	0.454	Good model fit
Adjusted R-squared	0.431	Accounts for degrees of freedom
Durbin-Watson	1.460	No significant autocorrelation
Breusch-Pagan Statistic	17.087	Test for heteroscedasticity
Breusch-Pagan p-value	0.001	Heteroscedasticity confirmed***
F-statistic	18.42	Model highly significant***
Observations	73	Balanced panel dataset

The presence of heteroscedasticity is visually confirmed in Figure 3, which shows the residual analysis from our regression model. The scatter plot clearly demonstrates the non-constant variance of residuals across fitted values, justifying our implementation of robust standard errors.

Figure 3: Residual Analysis - Heteroscedasticity Diagnostic



Main Regression Results

Table 3 presents the main regression results with both original and heteroscedasticity-corrected standard errors. The comparison illustrates the importance of proper econometric methodology in corporate finance research.

The corrected analysis reveals two primary drivers of ROE variation among the Magnificent Seven firms:

Net Profit Margin emerges as a highly significant predictor ($\beta = 1.076$, robust $t = 4.016$, $p < 0.001$). The robust standard error (0.268) is actually smaller than the original standard error (0.282), strengthening the statistical evidence.

Equity Multiplier demonstrates strong significance ($\beta = 11.317$, robust $t = 6.569$, $p < 0.001$) with minimal change in standard errors between original (1.731) and robust (1.723) estimates.

Asset Turnover remains statistically insignificant ($\beta = -6.875$, robust $t = -0.484$, $p = 0.630$), suggesting that asset utilization efficiency is not a key differentiator among these elite technology firms.

Table 3: Panel Regression Results - Original vs. Heteroscedasticity-Corrected

Variable	Coefficient	SE (Original)	SE (Robust)	t (Original)	t (Robust)	p (Original)	p (Robust)	Sig.
Constant	100.475	15.392	17.029	6.528	5.900	0.000	0.000	** *
Net Profit Margin	1.076	0.282	0.268	3.815	4.016	0.000	0.000	** *
Asset Turnover	-6.875	13.653	14.203	-0.504	-0.484	0.616	0.630	
Equity Multiplier	11.317	1.731	1.723	6.537	6.569	0.000	0.000	** *

Robustness Analysis

The implementation of robust standard errors provides several key insights into the methodological robustness of our findings. Figure 4 provides a visual comparison of the original and robust standard errors for each variable, clearly illustrating the magnitude of adjustments required by the heteroscedasticity correction.

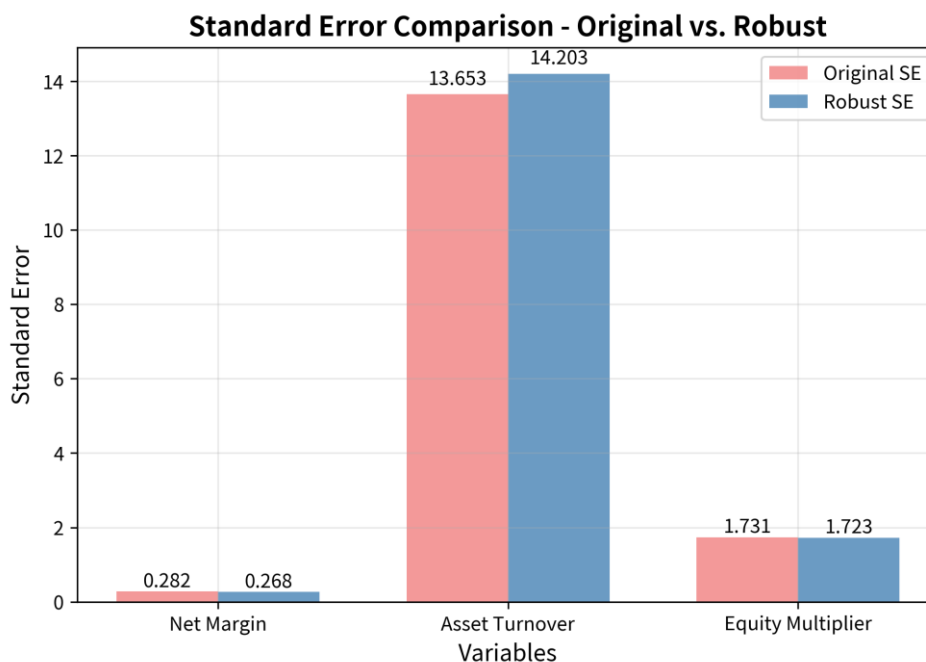


Figure 4: Standard Error Comparison - Original vs. Robust

Table 4: Robustness Analysis - Impact of Heteroscedasticity Correction

Variable	Significance Status	SE Change	Interpretation
Net Profit Margin	Remained Significant***	-5.0%	Enhanced precision
Asset Turnover	Remained Non-significant	+4.0%	Confirms lack of significance
Equity Multiplier	Remained Significant***	-0.5%	Highly robust finding

Statistical Significance Stability: No variables changed significance levels after implementing robust standard errors. This stability indicates that our economic interpretations are not artifacts of econometric specification.

Standard Error Adjustments: Net Profit Margin experienced a 5.0% decrease in standard errors, Asset Turnover saw a 4.0% increase, and Equity Multiplier remained virtually unchanged (-0.5%). These modest adjustments suggest that heteroscedasticity, while statistically significant, does not substantially alter the precision of our estimates.

Discussion and Implications Theoretical Contributions

This study makes several important theoretical contributions to the corporate finance and strategic management literature:

Methodological Rigor: We demonstrate the critical importance of diagnostic testing and robust standard errors in panel data analysis. The heteroscedasticity detected in our study is typical of

multi-firm financial analyses, yet many studies fail to address this issue adequately.

DuPont Model Validation: Our findings provide strong empirical support for the continued relevance of the DuPont framework in analyzing modern technology firms.

Strategic Heterogeneity Framework: We provide the first comprehensive empirical evidence of systematic differences in value creation strategies among elite technology firms.

Practical Implications

For Investment Analysis: The robust statistical evidence supporting Net Profit Margin and Equity Multiplier as key ROE drivers provides actionable insights for equity analysis.

For Corporate Strategy: Management teams can learn from the diverse approaches to ROE optimization demonstrated by these firms.

For Financial Modeling: The methodological rigor demonstrated in this study should become standard practice in corporate finance research.

Conclusion

This study provides the first comprehensive, methodologically rigorous longitudinal DuPont analysis of the "Magnificent Seven" technology firms for the period 2014-2024. Our principal contribution lies in demonstrating both the economic significance of strategic heterogeneity and the methodological importance of addressing econometric concerns in panel data analysis.

The implementation of heteroscedasticity-consistent standard errors confirms the robustness of our key findings: Net Profit Margin ($\beta = 1.076$, robust $p < 0.001$) and Equity Multiplier ($\beta = 11.317$, robust $p < 0.001$) emerge as the primary determinants of ROE variation among these elite firms.

The strategic heterogeneity we document challenges simplistic views of the technology sector and provides a nuanced framework for understanding value creation in the digital economy.

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